

# **RISK MANAGEMENT POLICY**

**Sagar Cements Limited**

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## 1. INTRODUCTION

### 1.1. Overview

In recent years all sectors of the economy have focused on management of risk as the key to making organizations successful in delivering their objectives whilst protecting the interests of their stakeholders. Risk may be defined as an event, action or inaction the outcome of which is uncertain and may have a bearing on the achievement of its desired goals and objectives.

Risk management is a holistic, integrated, structured and disciplined approach to managing risks with the objective of maximizing shareholder's value. It aligns strategy, processes, people & culture, technology and governance with the purpose of evaluating and managing the uncertainties faced by the organization while creating value.

Effective risk management allows an organization to:

- 1 have increased confidence in achieving its desired goals and objectives;
- 2 effectively constrain threats to acceptable levels;
- 3 take informed decisions about exploiting opportunities; and

Never before has effective management of business risk been so critical to achieve positive results and to enhance corporate reputation, as it is today. It has been seen that although significant risks are often known in some parts of the company, those risks may not have come to the attention of the right people at the right time.

Sagar Cements Limited realizes the need to better understand, anticipate and mitigate business risks in order to minimize the frequency and impact of risks. As the Company contends with the new responsibility for risk management, it is looking for greater assurance that there is a system in place, with well-documented, effective mitigation plans and accountability, which provides relevant information for decision making to the appropriate people in a timely manner.

A robust risk management framework has therefore been developed which is benchmarked with the leading global risk management standards and guidance available. In doing so the focus has been to have a framework that is simple and practical, which:

- 1 Allows a clear and concise view of risks;
- 2 Prioritize risks that matter ('RTM') i.e. the 'Top 10' risks;
- 3 Put in place appropriate mitigation plans to manage the RTMs

This Framework will continue to evolve and mature as risk management is implemented in the Organization and experience is gained. It is expected to be reviewed and amended on a regular basis, preferably on annual basis, to ensure its ongoing relevance and viability.

Risk Management is everyone's responsibility and needs to form part of every decision making and monitoring process at Sagar Cements Limited. The Risk Management Policy thus aims at outlining the framework adopted by Sagar Cements Limited to assess and mitigate the impact of risks and report to the top management and the Board of Directors on the risk assessment and minimization procedures.

### ***1.2. Guiding Principles for the Risk Management Framework***

The company's attitude to risk is based on the following key *principles*:

- 1 ***Shareholder value based:*** Risk management will be focused on sustaining the creation of shareholder value and protecting the same against erosion.
- 2 ***Embedded:*** Risk management will be embedded in existing business processes to facilitate management of risks across processes on an ongoing basis.

- 3 **Supported and Assured:** Risk management will provide support in establishing appropriate processes to ensure that current risks are being managed appropriately and assurance is provided to the relevant stakeholders over the effectiveness of these processes.
- 4 **Reviewed:** The effectiveness of the risk management program will be reviewed on a regular basis to ensure its relevancy in a dynamic and changing business environment.

### **1.3. The Risk Management Framework**

The components of risk management are different for different companies and are defined by the company's business model and strategies, organizational structure, culture, risk appetite and dedicated resources. It is not a standard "fit-all" solution. An effective risk management framework requires consistent processes for assessment, mitigation, monitoring and communication of risk issues across the organization. Essential to this process is its alignment with corporate direction and objectives, specifically strategic planning and annual business planning processes.

Risk management is a continuous and evolving process, which has to integrate with the culture of the organization over time. It would then get embedded in the strategy for attaining tactical and operational objectives such that each manager and employee in the system is assigned responsibility for management of risk as a part of their job description. It would then support accountability, performance measurement and reward, and thus promote overall efficiency at all levels.

The framework will help in creating an environment in which risk management is consistently practiced across the Company and where Management can take informed decisions to reduce the possibility of surprises.

The objective of the Risk Management Framework is to formalize and communicate Sagar Cements Limited's approach to the management of risk. It will have the following attributes:

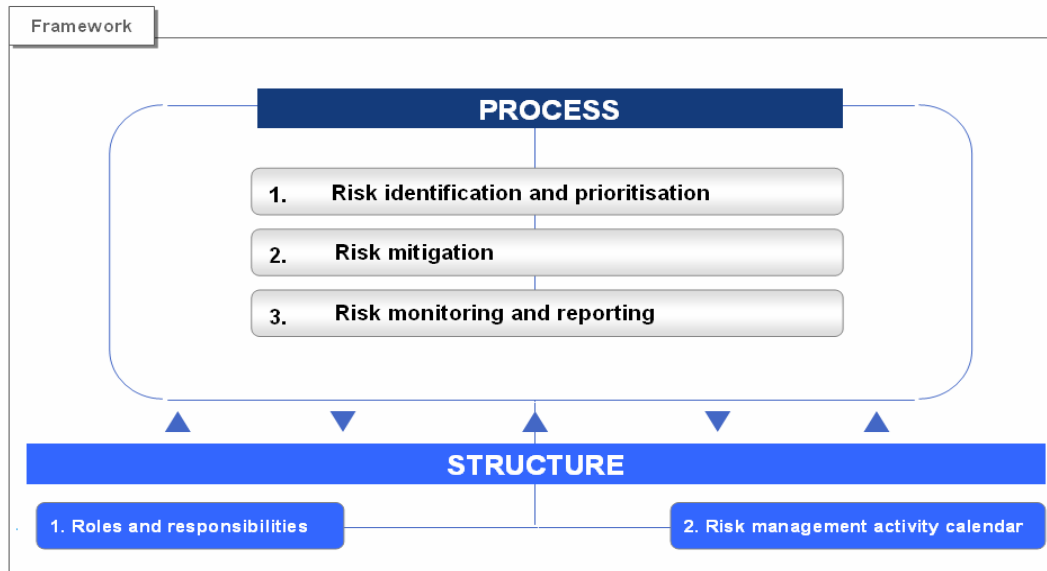
- 1 Responds to the Executive Management's need for enhanced risk information and improved governance;
- 2 Provides the ability to prioritize, manage and monitor the increasingly complex risks in the business;
- 3 Provides an explicit, comprehensive process to satisfy the regulators, and other stakeholders, that significant risks are being effectively managed.

**An effective Risk Management Framework comprises of:**

- 1 Risk management process; and
- 2 Risk management structure.

Below is a diagrammatic representation of the Framework.

## Risk Management Framework



### ***Risk Management Process***

An effective risk management process consists of 3 broad level steps:

- 1 Risk Assessment and Reporting;
- 2 Risk Mitigation; and
- 3 Risk Monitoring and Assurance

### ***Risk Management Structure***

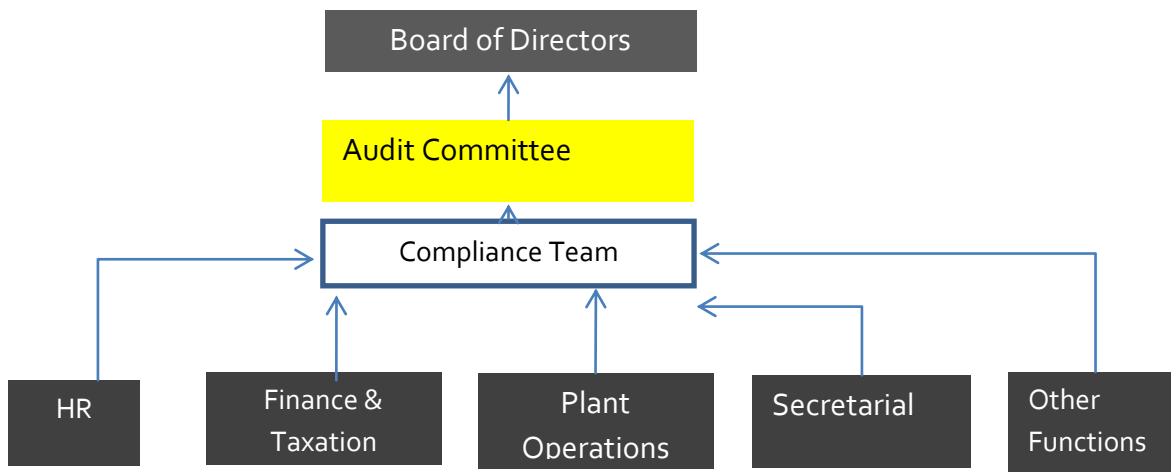
The risk management process has to be supported by a risk management structure which primarily comprises of:

1. Roles and responsibilities
2. Risk management activity calendar

### ***1.4. The Risk Management Approach at Sagar Cements Limited***

Sagar Cements Limited has decided to adopt a top-down approach for identifying and managing risks at the overall entity level. Under the top down approach, the principal challenges impacting the achievement of the organizational objectives have been articulated. Accordingly, the risk library comprises key strategic and business risks applicable. To begin with, mitigation plans would be drawn up only for the RTMs, which would then be extended to all the risks identified over a period of time.

### 1.5. The Risk Management Organization at Sagar Cements Limited



A Risk Team shall be formed, involving the HOD of all processes along with the Company Secretary and headed by the CEO/CFO, to review the day to day risks of the Organization.

The Risk team shall conduct a 'Risk Review Meeting' once a quarter. The remediation effectiveness of the risk mitigation plans earlier devised by the organization and to analyze the new set of risks identified by the Organization, and devise an appropriate mitigation plan during the risk review meetings.

The CEO/CFO shall head the Risk team and conclude on the status of remediation plans and submit a report to the Audit Committee on the quarterly basis on the status of the Risk remediation plans and the current Risks that Matter ('RTM').

An Annual status of Risk Management stats, along with the status of Risk Remediation plans shall also be presented to the Board of Directors by the CEO/CFO on the annual basis.

*For detailed roles and responsibilities of each of the above, please refer to Section 3.1*

## 2. RISK MANAGEMENT PROCESS

Effective risk management process requires consistent assessment, mitigation, monitoring and reporting of risk issues across the full breadth of the enterprise. Essential to this process is a well-defined methodology for determining corporate direction and objectives. The entire process will be aligned with annual budgeting processes and each function would be required to present the results of risk management exercise as a part of their respective budget presentation.

The risk management process consists of 3 steps:

- 1 Risk Assessment and Reporting;
- 2 Risk Mitigation; and
- 3 Risk Monitoring and Assurance.

### **2.1. Risk Assessment**

Risk assessment is defined as the process of identification, prioritization and analysis of risks. An effective risk assessment requires a common risk language and a continuous process for identifying and measuring risks. These elements need to be applied consistently across the organization to understand the nature of the prioritized risks and their impact on business objectives, strategies and performance.

Risk assessment is an on-going systematic process to be carried out at periodic intervals. It consists of the following activities:

- 1 Risk identification; and
- 2 Risk prioritization based on standard rating criteria
- 3 Risk Reporting

The entire process would be supported by enablers listed below:

- 1 Risk Classification Framework;
- 2 Risk Rating Criteria; and
- 3 Risk Event Listing
- 4 Survey Manager
- 5 Emerging Risk Log

#### **2.1.1. Risk identification**

##### *Overview and guidance*

In order to manage risks an organization needs to know what risks it faces. Risk identification captures the significant risks that may have an adverse impact on the organization's objectives and is the first step in building the organization's risk profile. In this regard, the focus would be on strategic / business risks that may have an impact on the ability of Sagar Cements to achieve its plan targets. In stating risks, care should be taken:

- 1 to avoid stating impacts which may arise as being the risks themselves; and
- 2 to avoid stating risks which do not have an impact on the objectives.

Equal care should be taken to avoid defining risks with statements, which are simply the converse of the objectives. A statement of a risk should encompass the cause of the impact, and the impact to the objective, which might arise.

***Approach for implementation***

Risk identification will be done by involving personnel at the senior and middle management level of all key functions at Sagar Cements, to achieve a holistic view of risks. The entire activity of risk identification will be managed by the CEO/CFO.

The frequency for conducting risk identification will be as follows:

***i. Annual risk identification***

In this process the existing risks identified for the business will be updated (addition/ deletion/ modification) based on discussions with key personnel in the Risk Team and or other relevant stakeholders. This activity shall be carried out once a year, preferably as part of the annual budgeting/planning exercise. The identified risks will be mapped to the appropriate risk category in the risk classification framework (*Refer 2.1.4 (a)*)

***ii. Quarterly Risk Review Meeting***

Occurrence of risks can never be predicted. However, it is imperative for the success of risk management that any risk which has emerged post the annual risk identification exercise shall have to be flagged off by the Risk Team and senior management team for deliberation and initiation of action in line with the risk management process. These risks can be identified across the organization through emerging Risk Log feature (*Refer 2.1.4(e)*) this activity shall be carried out once a quarter. The identified risks will be mapped to the appropriate risk category in the risk classification framework (*Refer 2.1.4 (a)*)

***2.1.2. Risk Prioritization******Overview and guidance***

Risk prioritization is the process of rating the risks in order to identify those risks which may have the most significant impact on the achievement of the stated goals and objectives of the business. The identified risks shall be prioritized based on the following parameters:

- i. *Inherent risk rating* – It highlights the intrinsic nature of the risk to the business in the current environment irrespective of the existence or effectiveness of plans to mitigate it. Inherent risk is derived based on the rating of the impact the risk can have on the stated business objectives and the probability of its occurrence. (*Refer rating criteria 2.1.4 (b)*). The simple average rating (after allocating all the votes) will be assigned to the consequence and probability for each risk and the inherent risk score will be computed as follows:



- ii. *Mitigation plan effectiveness rating* – It is the rating assigned to the existing mitigation plans based on their operational efficiency in reducing either the impact of the risk or the probability of its occurrence. (Refer rating criteria 2.1.4 (b)). The simple average rating (after allocating all the votes) will be assigned to the mitigation plan effectiveness for each risk.

### ***Approach for implementation***

Risk prioritization will be done by involving personnel at the senior and middle management level of all key functions, to get an overall view of the criticality of the risk as well as the effectiveness of the existing plans to mitigate the risk. The entire activity of risk prioritization will be managed by the CEO/CFO.

The frequency for prioritizing risks will be as follows:

#### ***i. Annual risk prioritization***

In this process the finalized list of risks will be voted on by the identified personnel to determine their inherent risk rating and the effectiveness of the current mitigation plans. This activity shall be carried out after the annual risk identification exercise. Annual prioritization of the entity level risks would be done by the CEO/CFO. Post compilation and analysis of the voting results the CEO/CFO shall compile the list of risk in order of priority, clearly identifying the RTMs.

#### ***ii. Quarterly risk prioritization***

If new risks are identified as part of the quarterly risk review meetings, the participants shall vote on the risks to determine their inherent risk and the current effectiveness of the mitigation plans. The activity related to the compilation and analysis of voting result will be performed by CEO/CFO, who shall then seek the approval of the members of Risk Team before including the new risk in the existing list of RTMs.

### ***2.1.3. Risk Reporting***

#### ***Overview and guidance***

Reporting is an integral part of any process and critical from a monitoring perspective. Results of risk assessment need to be reported to all relevant stake holders for review, inputs and monitoring.

#### ***Approach for Implementation in Sagar Cements Limited***

The CEO/CFO would be required to prepare on a quarterly basis a report for the Audit Committee detailing the following:

1. An overview of the risk management process in place;
2. Key observations on the status of risk management activities in the quarter, including any new risks identified and action taken w.r.t these risks;
3. Status of effectiveness of implementation of the mitigation plan for RTMs

#### **2.1.4. Enablers**

##### **a. Risk classification framework**

In order to promote a common risk language, improved understanding of risks, and the ability to consolidate risk information across the Company, a risk classification framework has been developed, consisting of risk categories and sub categories.

The risk classification framework will continue to be updated with the specific categories and sub categories identified through various risk assessments and inputs received. *Refer Annexure 1 for the risk classification framework Annexure 1.1 for risk category definitions.*

##### **b. Risk rating criteria**

It is important to prioritise the identified risk events to focus on those risks that have the most significant impact on the achievement of the stated goals and objectives of the business.

The risk rating criteria explains the basis on which the risk events will be prioritised. The rating criteria comprises of the following three aspects:

- 1 *Consequence* is defined as the level of impact that the potential risk can have on the achievement of business/functional objectives;
- 2 *Probability* is defined as the likelihood of occurrence of the potential risk;
- 3 *Mitigation plan effectiveness* is defined as the effectiveness of the existing controls for the risk in the business processes; and
- 4 *Inherent risk categorization grid* based on which the criticality rating (*critical, high, moderate or low*) will be assigned to the risk

**Refer Annexure 2 for the risk rating criteria.**

### ***c. Risk event listing***

All the risk events identified through one time risk assessment process and emerging list log will be collated to form the risk event listing for each function. All risk events identified through the above processes will be tagged to the risk categories and sub categories of the Sagar Cements Risk Universe. The risk event listing will lay the foundation towards development of Sagar Cements risk profile and will be used for developing the risk surveys.

### ***d. Emerging risk log***

Emerging risk log is the list of all new/emerging risks, identified/reported by personnel across the organisation. The log will be collated by the risk management coordinators on a bi-monthly basis and evaluated by the relevant function heads to identify the ones that will require mitigation initiatives.

The risk management coordinators will report the status of the log and function head's evaluations to the risk management committee on a bi-monthly basis. The risk management coordinators will also escalate the risk events which they believe to be critical and not prioritised by the function heads to the risk management committee.

## **2.2 Risk Mitigation**

### ***Overview and guidelines***

Risk mitigation is the process to initiate responsive action for managing the critical risks and restricts them at a tolerable level. The entire process is broken down into the following activities:

- i. Root cause analysis to identify the reasons/drivers for existence of the risk;
- ii. Development of broad level mitigation plan with proper ownership and implementation timelines;
- iii. Development of detailed action steps for implementation of the mitigation plans; and
- iv. Identification of risk indicators, where possible, to monitor the effect of the risk.

Risk mitigation plans will be developed for the following categories of risks:

- i. *'Top 10' risks* - Mitigation plans will be developed for the 'Top 10' or more or less as decided by the function head in discussion with other risk Management members, based on the risk prioritisation results; and
- ii. *Other Critical and High Risks* - Mitigation plans will also be developed for other risks (outside the 'Top 10' risks) decided by the function heads.

There are two categories of responsive actions that will be selected based on the criticality of the risk and effectiveness of the existing mitigation plans:

- i. For the critical risks that are managed effectively, the existing mitigation plans/controls will be documented with ownership and monitored on a continuous basis; and
- ii. For the critical risks that are not managed effectively, new mitigation plans will be developed to manage the risk and monitored on a continuous basis.

### ***Approach for implementation in Sagar Cements Limited***

In case of both the concurrent as well as annual risk mitigation exercise, the functional heads shall nominate personnel with appropriate competency who will participate in the process for identification of root causes and development of mitigation plans. The CEO/CFO shall organise and manage the activity related to the identification of root causes and development of mitigation plans during the Risk Review Meetings.

## **2.3 Risk Monitoring and Assurance**

### ***Overview and guidelines***

The risk monitoring and assurance process provides the assurance that there are appropriate controls in place for the risk management activities and that the procedures are understood and followed. Effective risk management requires a monitoring structure to ensure that the risk are effectively identified and assessed and the appropriate mitigation plans are in place.

A monitoring and assurance process will help to determine:

- i. The adopted measures results in what was intended;
- ii. The procedures adopted and information gathered for undertaking the assessment were appropriate; and
- iii. Improved knowledge would help in reaching better decisions and identify what lessons should be learnt to improve future assessment and management of risks.

### ***Approach Implementation in Sagar Cements Limited***

#### ***Monitoring***

The risk team will be responsible for monitoring the effectiveness of mitigation plan mapped to respective owners.

The CEO/CFO will be responsible to collate all the necessary information and convert it into a measurable data and report the following information to Audit Committee:

- Mitigation plan(s);
- Effectiveness (what is result);
- Status on the implementation; and
- Reason(s) for non-implementation (if applicable).

### ***Assurance***

Simultaneously there will be an assurance review to be carried out by the Corporate Internal Audit function to review the risk management processes and verify the efficacy of mitigation plan assigned to the owners. While making the annual internal audit plan the Internal Audit team will also allot time for risk management.

The internal audit team would submit the report to the Audit Committee and Risk Management Committee delineating the following information:

- 1 Assurance rating;
- 2 Test conducted;
- 3 Sample covered; and
- 4 Detailed assurance comments.

### 3. RISK MANAGEMENT STRUCTURE

#### ***3.1. Roles and Responsibilities***

The Risk Management Organisation at Sagar Cements will comprise of the following:

- A. Audit Committee
- B. Risk Team
- C. CEO/CFO

#### ***A. Board of Directors***

The Audit Committee would review the risk assessment and minimization procedures across the Company after presentation by the CFO/CEO.

#### ***B. Risk Team***

##### ***a. Overview***

The Team would comprise of HOD of all processes along with the Company Secretary and headed by the CEO/CFO with overall responsibility of:

- 1 Providing direction to the Risk Management initiative at Sagar Cements ;
- 2 Review results of the risk identification, prioritisation and mitigation plan development processes;
- 3 Review results of the identification, prioritisation and mitigation plan development processes for the applicable risks reported.
- 4 Review the quality of mitigation plans reported to assess appropriateness, and ensure that all risks are addressed;
- 5 Report to the Audit Committee, on the results of the risk identification, prioritisation and mitigation plan development processes across the Company.

##### ***b. Roles and responsibilities***

The specific roles and responsibilities of the Risk Team across the various components of the Risk Management framework are detailed below:

##### ***Risk Assessment***

- 1 Review the annual and quarterly results reported by the CEO/CFO on the risk identification and prioritization exercise and provide inputs;

***Risk Mitigation***

- 1 Review the mitigation plans developed along-with the root-causes, ownerships, timelines and status reported by the CRO; and
- 2 Seek clarifications and provide inputs on the mitigation plans to the CEO/CFO

***Risk Reporting & Monitoring***

- 1 Report to the Board on the status of the risk management within the Company on a quarterly basis.

***Risk Management Structure***

- 1 Review the performance of the CEO/CFO;
- 2 Review the need for additional risk management related activities across the Company and assign responsibilities.
- 3 Provide overall guidance related to the Risk Management processes across the company;
- 4 Review the Risk Management activity calendar to ensure compliance with the agreed processes and timelines.

***C. Corporate Risk Management Coordinator******a. Overview***

The CEO/CFO would be responsible for coordinating and managing all the risk management activities and shall directly report into the Audit Committee.

***b. Roles and responsibilities***

The specific roles and responsibilities of the CEO/CFO across the various components of the Risk Management framework are detailed below:

***Risk identification and prioritisation******i. Annual risk identification and prioritisation***

- 1 Facilitate the annual risk identification and prioritisation exercise;
- 2 Provide guidance to the nominated personnel on the approach for risk identification;

- 3 Compile the risk library (including mapping of risks to the categories in the risk classification framework) based on the inputs received from the nominated personnel;
- 4 Finalise the risk library based on the inputs received from Risk Team Members;
- 5 Facilitate the session for prioritisation of risks;
- 6 Compile the risk prioritisation results and prepare the list of risks in the order of priority clearly identifying the RTMs
- 7 Send the identification and prioritisation results to the Risk Team for review and acceptance.

**ii. Concurrent risk identification and prioritisation**

- 8 Organise and facilitate the quarterly risk review meetings;
- 9 Articulate any new risk identified as part of the meeting;
- 10 Obtain the prioritisation ratings for the new risks and the current mitigation plan effectiveness rating from the participants;
- 11 Submit the new risks and the prioritisation results for the review and acceptance of the Risk team members;

***Risk Mitigation***

**iii. Annual risk mitigation**

- 12 Initiate the annual mitigation exercise;
- 13 For the Risks That Matter, coordinate identification of root causes and development of the mitigation plans with the nominated personnel;
- 14 Distribute the root causes and mitigation plans for the review by Risk Team members;
- 15 Update the root causes and mitigation plans for the RTMs in the Risk information pack

**iv. Concurrent risk mitigation**

- 1 Based on the quarterly risk review meetings, if any reportable risk is identified, co-ordinate development of mitigation plans for the same;
- 2 Submit the root causes and mitigation plan for the review and acceptance by the Risk Team;
- 3 Update the finalised new risk (s) and mitigation plans in the Risk information pack

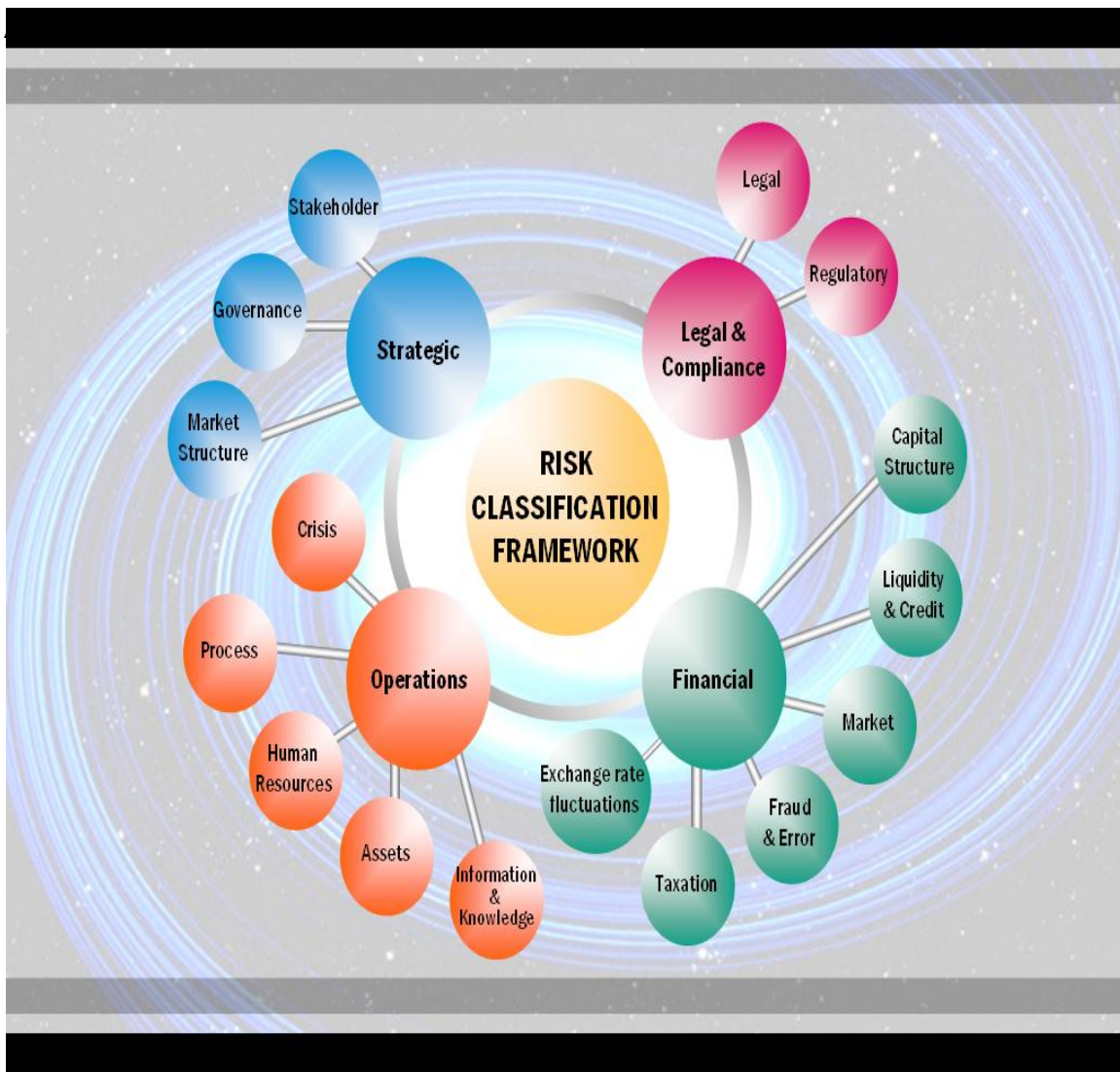


### ***Risk Monitoring and Reporting***

- 1 Design appropriate yard sticks for mitigation plan effectiveness;
- 2 Collate the results of mitigation ;
- 3 Submit the compiled results to the Risk Team for review and confirmation; and
- 4 Populate the updated mitigation plan ratings in the Risk information pack

## **ANNEXURES**

### **Annexure 1: Risk Classification Framework**



## I STRATEGIC

The strategic focus of the organisation is driven by the stakeholder expectations, industry outlook, market dynamics as well as the way the organisation is governed and guided. This category covers the risks which may impact the strategic focus and future of the organisation.

### 1) Stakeholders

Stakeholders of an organisation usually comprise of its shareholders, customers, suppliers, business partners, the community in which it operates and the Government (including regulatory bodies). This category therefore covers the risks relating to shareholder confidence, changes in government policies, over-dependencies on Customers and Suppliers and ineffective business partnerships.

### 2) Governance

Governance signifies the way an organisation is led and managed in the pursuit of its objectives. This category would cover risks, which may arise due to inappropriate strategic focus / direction or resource allocation, inadequacy of business monitoring, actions impacting the reputation of the company or the improper / immoral conduct of employees.

### 3) Market Structure

Market structure refers to the dynamics of the industry, country and economy in which the organisation operates. This category would include risks arising due to adverse changes in the economic, political, social or competitive environment in which the organization operates as well as the its ability to influence the market structure.

## II FINANCIAL

In the pursuit of its objectives a corporate raises and manages capital as well as protects its monetary resources. Financial risks include risks relating to the manner in which a corporate raises and manages its finances, plans its taxes and reduces uncertainty due to market movement of currency, interest rates and commodity prices. This category of risks also includes risks arising due to frauds and errors.

### 1) Capital Structure

Capital signifies the monetary resources an organisation requires to sustain its operations and fuel its future expansion. This category would cover risks which may impact the organization's ability to acquire an appropriate and cost effective mix of such resources in line with its requirements

**2) Liquidity & Credit**

Availability of funds for day-to-day operations is a key requirement for the smooth functioning of an organisation. This category would cover risks which may arise due to insufficient realizations and / or improper management of funds to further the current and future business objectives.

**3) Market**

Markets represent a buyer/seller network for the exchange of capital, credit and resources. This category would include risks emanating from adverse commodity price changes, exchange rate movements and interest rate change.

**4) Fraud & Error**

A fraud involves the use of unjust or illegal means to gain financial advantage by intentional misstatements in, or omissions of amounts or disclosures from, an entity's accounting records or financial statements. It also includes actions, whether or not accompanied by misstatements of accounting records or financial statements, committed for personal gains, whereas, an error is an unintentional misrepresentation of facts. This category would cover risks which an organisation may face in the event of fraud or error, with or without collusion with external parties.

**5) Taxation**

Tax, cess or duty is a compulsory charge levied on the income, sales, property etc. of an organisation. This category covers risks emanating from an inefficient structuring of business transactions (within the constraints of the applicable rules and regulations) from a taxation perspective (both direct and indirect), which may result in excessive financial outgoes or benefits not being availed.

**6) Exchange rate fluctuations**

Volatility in foreign exchange rates exposes the company to economic and accounting losses. This includes risks due to fluctuations in exchange rates, translation of trading assets and liabilities denominated in one currency to another, economic conditions of different countries which will in turn have impact on currencies of respective countries.

### III OPERATIONS

Operations refer to the activities of the organization in harnessing its resources to execute its business model. This category of risks includes risks related to resources and processes which come together to create products and services that satisfy customers and help achieve the organization's quality, cost and time performance objectives.

#### 1) Process

An organisation undertakes business processes to create products and services and deliver them to customers. This category includes those risks that arise due to inefficiencies in, or interruptions to, these processes.

#### 2) Human Resources

Employees and managers help manage the organisation, leverage its assets and operate its business processes. This category includes risks related to inappropriateness of organisation structure, inadequacies in training and development of employees, attrition, inadequate succession planning and lack of requisite knowledge, skills and attitude in the employees which may impact the successful execution of the organization's business model and achievement of critical business objectives.

#### 2) Assets

The assets of the organisation are the physical and intellectual resources available to it which facilitate its business processes in the achievement of its objectives. This category includes risks which have an impact on the availability and value of the organization's assets including plant, property & equipment, IT systems and intellectual property

#### 4) Information & Knowledge

In the course of business operations, an organisation captures information and creates knowledge. Knowledge and informational risks are that category of risks that arise due to inefficient capturing, utilization and protection of knowledge.

#### 5) Crisis

Crisis emanating from natural calamities or man made disasters are inherent in the business. Crisis risks cover risks that arise due to earthquake, floods, drought, terrorism, hostile community action and similar events as well as factors such as sabotage by employees, hostile government action and their implications resulting into business discontinuity, disruption of operations, loss of valuable customers etc.

#### IV LEGAL & COMPLIANCE

The organization operates in a legal and regulatory framework which imposes certain obligations on it and helps protect its rights. This category of risks includes risks which arise due to an organization not fulfilling its legal obligations or being unable to protect its rights.

**1) Legal**

Legal risks arise when an organisation does not comply with its enforceable commitments to counterparties or is unable to enforce its rights against counterparties. These risks would include exposure of the organization to litigation or the inability to protect its rights through litigation, and exposure on account of inadequate representations and warranties from the third parties for fulfilling their obligations arising out of the legal agreements entered into with them.

**2) Regulatory**

Regulatory risks are the risks that arise on account of regulations imposed by government which may affect the organization's competitive position or its capacity to efficiently conduct business. This category also includes the risks of penalties and prosecution which may arise on regulatory non-compliance.

## Annexure 2: Risk Rating Criteria

## Rating Criteria - Consequence

Score	Rating	Qualitative
		Description
25	<b>Critical</b>	<b>Inability to achieve business objectives, e.g.</b> <ul style="list-style-type: none"> <li>▪ Loss of significant business capability</li> <li>▪ Massive reduction in company reputation with stakeholders</li> <li>▪ Excessive costs dramatically impacting long term profitability and viability</li> <li>▪ Inability to retain a significant portion of customers/inability to attract new customers</li> <li>▪ Significant operational losses leading to significant reduction of market value</li> </ul>
20	<b>High</b>	<b>Constrained ability to achieve business objectives, e.g.</b> <ul style="list-style-type: none"> <li>▪ Significant but recoverable reduction in company credibility and/or reputation</li> <li>▪ Significant reduction in service and business capability</li> <li>▪ Incurring excessive costs that impact current earnings and profitability</li> <li>▪ Loss or misappropriation of significant assets</li> <li>▪ Loss of significant number of key personnel</li> <li>▪ Significant Downgrading of financial rating</li> </ul>
15	<b>Moderate</b>	<b>Moderate impact on achievement of business objectives, e.g.</b> <ul style="list-style-type: none"> <li>▪ Loss of high value customers or alliances, customer loyalty and sales opportunities</li> <li>▪ Temporary loss of service or business capability</li> <li>▪ Temporary, but recoverable reduction in credibility/reputation</li> <li>▪ Short term increase in costs or loss of revenue</li> </ul>
10	<b>Low</b>	<b>Limited impact on the achievement of business objectives, e.g.</b> <ul style="list-style-type: none"> <li>▪ Temporary delay in reaching objectives</li> <li>▪ Short term or limited reputation damage</li> <li>▪ Limited impact on customer retention</li> <li>▪ Limited increase in costs</li> <li>▪ Minimal impact to revenue or earnings</li> </ul>
5	<b>Minor</b>	<b>Relatively insignificant impact on the achievement of business objectives.</b>

## Annexure 2: Risk Rating Criteria

# Rating Criteria - Probability

Score	Rating	Probability of the risk to occur and lead to assessed consequences		
		Occurrence in future	Percentage chance	Occurrence in the past
25	Expected	Very High, will be almost a routine feature every month within the immediate next year	Over 80%	Similar instances have commonly occurred every month in the past
20	Highly Likely	High, may arise several times within the immediate next year	50% to 80%	Similar instances have occurred several times in the past year
15	Likely	Possible, may arise once or twice within the immediate next year	10% to 49%	There have been 1 or 2 similar instances in the past year
10	Not Likely	May occur once or twice between year 2 (from now) to 5 years	5% to 9%	Though not routinely, but there have been similar instances in the last 2 to 5 years
5	Slight	Not likely, almost impossible to occur between year 2 (from now) to 5 years	less than 5%	Similar instances have never occurred in the past

## Annexure 2: Risk Rating Criteria

## Rating Criteria – Management Plan Effectiveness

Score	Rating	Description
3	Ineffective	Mitigation plans though in place but do not ensure any control over the risk occurrence and impact.
2	Effective	Mitigation plans involved duly laid down approval and reporting norms though not ensuring complete control over the risk occurrence and impact.
1	Highly Effective	Mitigation plans involved stringent approval and reporting norms with responsibility for execution duly mapped to various management levels ensuring complete control over the risk occurrence.



## Annexure 2: Risk Rating Criteria

# Inherent Risk Categorization Grid

## R A T I N G      S C A L E

Probability	Consequence				
	Minor	Low	Moderate	High	Critical
Expected	M	H	C	C	C
Highly Likely	M	H	C	C	C
Likely	L	M	H	C	C
Not Likely	L	M	M	H	H
Slight	L	L	L	M	M

Level of Risk	Description	Inherent Risk C*P
<b>Critical</b>	Critical Risk, Immediate action required	<b>Over 260</b>
<b>High</b>	High Risk, Corporate senior management attention needed to develop and possibly initiate action steps in the near future	<b>151 to 260</b>
<b>Moderate</b>	Moderate Risk, Functional head attention needed	<b>76 to 150</b>
<b>Low</b>	Low Risk, Manage by routine procedures	<b>Less than 75</b>